

Message Text

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PAGE 01 MANILA 14306 01 OF 02 050937Z

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ACTION TRSE-00

INFO OCT-01 EA-06 NEA-06 ISO-00 IO-10 L-02 H-01 PA-01

PRS-01 USIA-06 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

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P 050804Z DEC 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8880

INFO AMEMBASSY DACCA PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 14306

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 6/30/75

SUBJECT: PROPOSED ADB LOAN FOR JUTE SEED PROJECT (BANGLADESH)

SUMMARY: ADB MANAGEMENT PROPOSES \$9.55 MILLION EQUIVALENT LOAN FROM SPECIAL FUNDS RESOURCES TO BANGLADESH TO FINANCE FOREX COST AND HALF OF THE LOCAL COST OF PROVIDING GOOD QUALITY JUTE SEED TO GROWERS TO INCREASE JUTE FIBER PRODUCTION IN BANGLADESH. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY

1. ADB DOC. R123-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES DEC. 2. BOARD CONSIDERATION SCHEDULED DEC. 19.

2. ADB MANAGEMENT PROPOSING \$9.55 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO BANGLADESH. PROCEEDS
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PAGE 02 MANILA 14306 01 OF 02 050937Z

WILL FINANCE FOREX COST OF RESEARCH AND JUTE SEED

PRODUCTION FACILITIES INCLUDING FOUNDATION SEED FARMS, SEED PROCESSING AND STORAGE FACILITIES, A TRAINING CENTER AND TRAINING FELLOWSHIPS FOR LOCAL STAFF; CONSULTANT SERVICES. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING TEN YEAR GRACE PERIOD, ONE PERCENT PER ANNUM SERVICE CHARGE. PEOPLE'S REPUBLIC OF BANGLADESH TO BE BORROWER, MINISTRY OF JUTE TO BE EXECUTING AGENCY.

3. AGRICULTURE IS PREDOMINANT SECTOR OF BANGLADESH ECONOMY, GENERATING 60 PERCENT OF GDP; ACCOUNTING FOR EMPLOYMENT 80 PERCENT OF POPULATION. RICE IS MAJOR CROP; HOWEVER RAW JUTE CULTIVATION IS SECOND IN IMPORTANCE, PLAYS KEY ROLE BOTH AS INPUT FOR COUNTRY'S MAIN INDUSTRY AND AS PRIMARY EXPORT COMMODITY. FROM FY'S 1969/70 TO 1973/74, RAW JUTE AND JUTE PRODUCTS EARNED FROM 75 TO 90 PERCENT OF BANGLADESH'S FOREX. JUTE IS MAJOR SOURCE RURAL CASH INCOME; HOWEVER WORLD DEMAND FOR JUTE IS STAGNANT WITH LOW GROWTH IN CONSUMPTION PROJECTED THROUGH 1980. STAGNANT DEMAND ATTRIBUTED TO SUBSTITUTIBILITY OF SYNTHETICS (POLYPROPYLENE); UNCERTAIN SUPPLY; UNSTABLE PRICES, TECHNOLOGICAL SHIFT TO MORE BULK SHIPMENT OF PRODUCTS FORMERLY BAGGED.

5. WITH BOTH RAW JUTE AND JUTE GOODS EXPORTED, DETERMINANT OF PRICES PAID TO FARMERS AND MANUFACTURERS IS EFFECTIVE RATE OF EXCHANGE. IN PAST, GOVT EXPORT BONUS SCHEME FAVORED DOMESTIC JUTE INDUSTRY, DEPRESSED RAW JUTE PRICES. THIS LED TO SHORTAGE OF RAW JUTE, SPEEDED MARKET PENETRATION BY SYNTHETIC SUBSTITUTES. RAW JUTE PRICES INCREASED AFTER EXPORT BONUS WAS DROPPED, BUT GIVEN CURRENT RICE SCARCITY AND HIGH RICE PRICES, MORE FARMERS HAVING CHOICE OPT TO GROW FOOD RATHER THAN CASH CROP AND WILL TEND TO CONTINUE DOING SO UNTIL BANGLADESH APPROACHES FOOD SELF-SUFFICIENCY AT WHICH TIME JUTE/ RICE PRICE RATIO WOULD THEN BEGIN TO FAVOR JUTE.

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PAGE 03 MANILA 14306 01 OF 02 050937Z

6. GOVT CAN INFLUENCE ACREAGE PLANTED TO SOME EXTENT BY GUARANTEEING JUTE PRICES PAID TO FARMERS, ALTHOUGH OTHER CONSTRAINTS KEEPING YIELDS LOW ARE DOUBTFUL SEED QUALITY, LACK OF FERTILIZER AND PLANT PROTECTION CHEMICALS, INADEQUATE EXTENSION SERVICES. GOVT FACING DILEMMA THAT JUTE WITH DECLINING WORLD DEMAND IS ONLY CROP THAT CAN BE GROWN ON ABOUT 1 MILLION ACRES OF LAND, EMPLOYS 3-4 MILLION FARMERS

AND LABORERS, 150,00 FACTORY WORKERS. NO IMMEDIATE REPLACEMENT FOR JUTE AS MAJOR FOREX EARNER IS PERCEIVED, SO GOVT HAS UNDERTAKEN INTENSIVE JUTE CULTIVATION SCHEME (UJCS) TO INCREASE ACREAGE AND YIELDS/ACRE TO TARGET OF 4.5 BALES/ACRE; HAS INCREASED JUT PRICES PAID TO FARMERS.

7. GOVT JUTE RESEARCH INSTITUTE (JRI) HAS FOCUSED ON DEVELOPMENT OF IMPROVED SEED VARIETIES BUT HAS BEEN PLAGUED BY LACK OF RESOURCES AND COMPETENT STAFF, ABSENCE OF WELL DEFINED GOALS; INABILITY TO MAINTAIN PURITY OF SEEDS AND DISTRIBUTE THEM TO FARMERS.

8. PROJECT IS DESIGNED TO EXPAND ACREAGE UNDER UJCS FROM PRESENT 300,000 TO 1.7 MILLION ACRES; ASSURE PRODUCTION OF SUFFICIENT JUTE SEED WITH HIGH VIABILITY, PURITY AND GERMINATION THROUGH IMPROVED RESEARCH AND SEED PRODUCTION. THIS TO BE ACCOMPLISHED BY:

- A) STRENGTHENING RESEARCH CAPABILITIES;
- B) ESTABLISHING CENTRAL RESEARCH STATION, TWO BREEDER SEED FARMS AND FOUR RESEARCH SUB-STATIONS;
- C) ESTABLISHING EXPERIMENTAL RETTERY (SOAKING POND TO SEPARATE FIBER FROM HUSK) AND SMALL FARM IMPLEMENT RESEARCH;
- D) IMPROVING TWO FOUNDATION SEED FARMS;
- E) DEVELOPING CERTIFIED SEED GROWER'S SCHEME TO COVER 14,500 ACRES;
- F) CONSTRUCTING TWO REGIONAL SEED PROCESSING CENTERS AND SEED WAREHOUSE;

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PAGE 01 MANILA 14306 02 OF 02 050946Z

11

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FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 14306

G) ESTABLISHING A TRAINING CENTER

H) PROVIDING CONSULTANT SERVICES; AND

I) TRAINING FELLOWSHIPS FOR LOCAL STAFF.

PROJECT TO BE COMPLETED BY 1980.

9. TOTAL COST OF PROJECT ESTIMATED AT \$12 MILLION
COMPRISED OF \$7.1 MILLION IN FOREX COSTS AND
\$4.9 MILLION EQUIVALENT IN LOCAL CURRENCY (LC). PROJECT
HAS BEEN DIVIDED INTO TWO PARTS WITH
FOREX COMPONENT OF PART A ALLOCATED AS FOLLOWS:
FARM DEVELOPMENT AND BUILDING (\$3,180); EQUIPMENT
AND TRANSPORT (\$1,860); CONSULTANT SERVICES FOR
PART A (180) AND CONTINGENCY (780) (ALL ABOVE
FIGURES IN THOUSANDS). FOREX COMPONENT OF PART
B, COVERING CONSULTANT SERVICES FOR RESEARCH, FARM
DEVELOPMENT AND MANAGEMENT AND FELLOWSHIPS ALLOCATED
AS FOLLOWS: CONSULTANT SERVICES (\$800); TRANSPORT
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PAGE 02 MANILA 14306 02 OF 02 050946Z

(35); FELLOWSHIPS (\$125) AND CONTINGENCY (\$140)
(ABLVE FIGURES IN THOUSANDS). FOREX SUB-TOTAL
FOR PART A THUS \$6 MILLION AND FOR PART B \$1.1
MILLION. UNDP BEING APPROACHED TO GRANT FINANCE
PART B. PROPOSED LOAN TO INCLUDE FOREX COMPONENT
PARTS A AND B WITH UNDERSTANDING THAT \$1.1 MILLION OF
LOAN WILL BE CANCELLED (PART B) IF UNDP ASSISTANCE
BECOMES AVAILABLE WITH BANK TO SERVE IN THAT EVENT
AS EXECUTING AGENCY (SIDE LTR. NO. 1, PARA. 4).
GIVEN BANGLADESH'S SERIOUS ECONOMIC DIFFICULTIES,
LOW PER CAPITA INCOME, ADVERSE TERMS OF TRADE,
DISRUPTED ECONOMY AND DIFFICULT BALANCE OF PAYMENTS
POSITION, BANK PROPOSES CONCESSIONAL FINANCING AND
ALSO TO FINANCE ONE-HALF OF TOTOAL LOCAL CURRENCY
COMPONENT BOTH PARTS OF PROJECT OR \$2.45 MILLION
EQUIVALENT OF TOTAL OF \$4.9 MILLION EQUIVALENT
PROJECT LC COST. GOVT ASSURES IT WILL MAKE

AVAILABLE REMAINING LC AMOUNTING TO \$2.45 MILLION
EQUIVALENT IN ACCORD WITH REQUIREMENTS OF PROJECT
(SIDE LTR. NO. 4, PARAS 10-14).

10. EXECUTING AGENCY, MINISTRY OF JUTE ESTABLISHED
1973, WILL SET UP PROJECT COORDINATION OFFICE
(PCO) TO COORDINATE MAJOR PROJECT ACTIVITIES --
AGRICULTURAL RESEARCH DIVISION (ARD) AND PROPOSED
SEED PRODUCTION DIVISION (SPD), OTHER RELEVANT
AGENCY INPUTS. NOMINATION OF PROJECT COORDINATOR
(WITH EQUIVALENT RANK OF JOINT SECRETARY) AND
PROJECT ENGINEER, TO BE CONDITION OF LOAN EFFECTIVENESS
(LOAN AGMT, SEC. 6.01).

1. PROJECT IMPLEMENTATION SCHEDULED FOR FIVE
YEARS TO INCLUDE INITIALLY FARM PLANNING AND LAYOUTS,
DESIGN OF LABORATORY AND EXTENSION CENTERS, APPROVAL
OF DETAILED DESIGNS BY PCO. RESEARCH STATIONS
SCHEDULED FOR SECOND YEAR; MECHANIZED SEED FARMS
FOR THIRD, FOURTH AND FIFTH YEARS.

12. CONSULTANT SERVICES TO BE ENGAGED UNDER BANK
GUIDELINES, TO BE IN THREE CATEGORIES: (1) FOR
JUTE RESEARCH; A RESEARCH PLANNER (6 MAN/MOS);
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PAGE 03 MANILA 14306 02 OF 02 050946Z

PLANT PHYSIOLOGIST (24 MAN/MOS); PLANT BREEDER
(36 MAN/MOS) ; DESIGN ENGINEER FOR FARM IMPLEMENTS
(24 MAN/MOS) PLUS VARIOUS SHORT-TERM CONSULTANTS
IN PLANT PATHOLOGY, ENTOMOLOGY, ECONOMICS AND SEED
TECHNOLOGY TOTALLING 27 ADDITIONAL MAN/MOS; (2)
FOR FARM DEVELOPMENT; ONE EXPERT FOR THREE YEARS
IN PLANNING PHYSICAL LAYOUT; AND A A FARM MANAGER
FOR 27 MAN/MOS TO TRAIN COUNTERPARTS; (3) FOR FARM
PLANNING, PROCUREMENT AND EVALUATION; ONE EXPERT
TO DESIGN AND ESTIMATE BUILDINGS FOR 12 MAN/MOS;
A SEED MACHINERY EXPERT FOR 4 MAN/MOS AND IN
FOURTH YEAR OF PROJECT TWO CONSULTANTS FOR FOUR
MAN/MOS EACH TO EVALUATE AG RESEARCH PROGRESS AND
MANAGEMENT OF THE SEED PRODUCTION SCHEME.

13. PROCUREMENT TO BE IN ACCORD BANK'S GUIDELINES
WITH SUPPLY CONTRACTS OVER \$100,000 AWARDED ON
BASIS INT'L COMPETITIVE BIDDING; UNDER THAT
AMOUNT BY INT'L SHOPPING. CONSTRUCTION CONTRACTS
TO BE AWARDED ON BASIS COMPETITIVE BIDDING AMONG
PRE-QUALIFIED LOCAL CONTRACTORS, USING BUILDING
MATERIALS PROCURED AND SUPPLIED TO CONTRACTOR
BY PCO OF EXECUTING AGENCY.

14. PROJECT CONSIDERED TECHNICALLY FEASIBLE AND ECONOMICALLY JUSTIFIED WITH ECONOMIC RATE OF RETURN ESTIMATED AT 51 PERCENT. INCREMENTAL INCREASE IN PRODUCTION FROM SEED TO BE PRODUCED BY THIS PROJECT ESTIMATED AT 360,000 BALES ANNUALLY. THREE TO FOUR MILLION OF BANGLADESH'S POOREST FARM FAMILIES TO BENEFIT FROM PROJECT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

15. REQUEST U.S. MISSION DACCA COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
ARNOLD

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Message Attributes

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TAGS: EAID, EFIN, RP, ADB-1
To: STATE
Type: TE
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